



Agenda Item 5

April 11, 2011

TO: MEMBERS OF THE INVESTMENT COMMITTEE

- I. **SUBJECT:** Contracts – Global Equity External Investment Manager Solicitation
- II. **PROGRAM:** Global Equity
- III. **RECOMMENDATION:** Approve the Solicitation for Global Equity Investment Managers

IV. ANALYSIS:

Introduction

CalPERS investment staff seeks approval to conduct a solicitation for Global Equity investment managers in accordance with Board Resolution OSSD-98-01, "Contracts & Procurement of Goods and Services – Competitive Contracting Alternatives." Use of this approved solicitation method will provide CalPERS with more flexibility and enhance its ability to improve the relative performance of the Global Equity program. Staff requests the authority to conduct the search and recommend the selection of the managers that best complement CalPERS existing Global Equity manager structure. Staff will present the selected investment managers to the Committee for approval at a subsequent meeting.

Manager Search Process

Board Resolution OSSD-98-01, "Contracts & Procurement of Goods and Services – Competitive Contracting Alternatives" (Resolution) authorizes the award of contracts for services based on a competitive negotiation process that includes certain minimum requirements. The proposed solicitation will be executed in full compliance with the requirements of the Resolution as set forth below.

1. The Investment Proposal Tracking System portal (Portal) will publish a solicitation document that sets forth all of the elements required by the Resolution including (a) the minimum requirements for participation, (b) a statement of the business needs of CalPERS, (c) an overview of the contracting process that will be followed, and (d) an invitation to submit proposals.

In addition, managers submitting proposals will be required to review and acknowledge receipt of the following information:

- Terms and conditions of standard contract agreement
 - Placement Agent Policy
 - AB1743 requirements
 - Contract-Related Disclosure Policy
 - Portfolio status (fully invested, cash flow negative, etc.)
 - Portfolio Benchmarks
 - Portfolio constraints
 - Description of evaluation process
 - Minimum qualifications
2. Proposals will be received through the Portal and all proposals will be evaluated to determine whether they meet the minimum qualifications. Those proposals meeting the minimum qualifications will be further evaluated and ranked according to score, as required by the Resolution. The following criteria will be used to evaluate, score and rank the managers:
- Manager contact and experience
 - Experience with strategy
 - Team experience (size) with strategy
 - Manager attributes (stock picker, fundamental, technical, growth, value, activist, etc.)
 - Peer universe (strategy, style, benchmark)
 - Three to five year return history
 - Benchmark
 - Strategy attributes
 - Qualitative questionnaire (CalPERS values)
 - Competitive fee arrangements
3. As contemplated by the Resolution, Investment Office staff will hold discussions with the highest ranking (best qualified) proposers regarding the relative utility of each of their investment strategies and the cost or fee of their services. All such proposals will be vetted through the Investment Strategy Group, which will act as an internal governance review that assesses the attributes and merits of each proposal and evaluates its return on investment to the portfolio.
4. Investment Office staff will negotiate a contract with the proposers that best meet CalPERS business needs at a fair and reasonable compensation. However, because the Investment Committee has reserved the authority to

select investment managers, the managers selected by staff will be presented to the Committee for approval before contracts are awarded and executed.

The above-described manager solicitation and selection process will be on going; the Portal will continue to receive proposals, and periodically, staff will evaluate and bring recommendations of groups of managers to the Investment Committee for approval.

Conclusion

- Staff seeks approval to engage in a solicitation process based upon Board Resolution OSSD-98-01, "Contracts & Procurement of Goods and Services – Competitive Contracting Alternatives," in order to search for and retain Global Equity investment managers.
- Staff will seek Committee approval to contract with the investment managers that staff believes best complement CalPERS existing Global Equity manager structure and will enhance CalPERS ability to improve the relative performance of the Global Equity program.

V. STRATEGIC PLAN:

This item will further the following goals of CalPERS Strategic Plan:

- Goal VIII. Manage the risk and volatility of assets and liabilities to ensure sufficient funds are available, first, to pay benefits and second, to minimize and stabilize contributions.
- Goal IX. Achieve long-term, sustainable, risk adjusted returns.

VI. RESULTS/COSTS:

Costs are included in existing budget.

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